



**CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE**

September 30, 1999

S. 1059

**National Defense Authorization Act for
Fiscal Year 2000**

As cleared by the Congress on September 22, 1999

SUMMARY

The National Defense Authorization Act for Fiscal Year 2000 contains numerous provisions that will affect direct spending, including provisions affecting military retirement, survivor benefits, spectrum auction receipts, and retirement benefits of civilian employees of the Department of Defense (DoD) and the Department of Energy (DOE). In total, CBO estimates that these provisions will increase outlays by \$412 million over the 2000-2009 period.

The act will also allow DoD to sell certain materials in the strategic stockpile as well as various naval vessels. These asset sales will raise offsetting receipts by \$574 million over the next 10 years. Furthermore, the act will reduce on-budget revenues by \$8 million over that same period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Table 1 displays the budgetary effects of the provisions of S. 1059 that will affect direct spending, asset sales, and revenues. For the purposes of enforcing pay-as-you-go procedures, only the on-budget effects in the budget year and the succeeding four years are counted.

Direct Spending

Changes to REDUX. The act will increase retirement benefits for members of the armed forces who entered the service after July 31, 1986, and are covered under the system known as REDUX.

TABLE 1. BUDGETARY IMPACT OF S. 1059 ON DIRECT SPENDING, ASSET SALES, AND REVENUES
(In millions of dollars)

Section	Provision	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIRECT SPENDING (OUTLAYS)											
641-642	Changes to REDUX	1	1	2	2	3	3	5	25	66	125
656	Extension of Survivor Benefits	a	a	6	7	7	7	7	7	7	7
655	Paid-Up Survivor Benefits	0	0	0	0	0	0	0	0	2	2
1062	Forgone Spectrum Receipts	0	0	50	0	0	0	0	0	0	0
522	Retirement of Technicians	2	4	5	5	5	5	4	3	2	2
1104	DoD Separation Incentives	0	0	a	36	24	-4	-9	-9	-9	-9
3242	DOE Early Retirement Authority	a	1	2	3	3	2	1	a	-1	-1
3161	DOE Separation Incentives	0	0	a	1	1	a	a	a	a	a
2802	Ford Island Lease-Purchase	b	b	b	b	b	b	b	b	b	b
2834	Land Conveyance	0	1	0	0	0	0	0	0	0	0
	Subtotal	3	7	65	54	43	13	8	26	67	126
ASSET SALES^c (OUTLAYS)											
3402	National Defense Stockpile	-10	-20	-40	-80	-80	-80	-80	-40	-30	-30
1018	Sale of Naval Vessels	-90	3	3	0	0	0	0	0	0	0
	Subtotal	-100	-17	-37	-80	-80	-80	-80	-40	-30	-30
REVENUES											
522	Retirement of Technicians										
	On-Budget	a	a	-1	-1	-1	-1	-1	-1	-1	-1
	Off-Budget	a	a	1	1	1	1	1	1	1	1
BILL TOTAL^d											
	Net Increase or Decrease (-) in the On-Budget Surplus	97	10	-29	25	36	66	71	13	-38	-97

a. Costs or savings of less than \$500,000.

b. CBO does not have enough information to estimate this cost.

c. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that result from S. 1059 will generate a net savings to the government and therefore that the proceeds count for pay-as-you-go purposes.

d. For purposes of enforcing pay-as-you-go scoring, only the on-budget effects in the budget year and succeeding four years are counted. As a result, these figures represent only the on-budget effects of S. 1059.

Background. The Military Retirement Reform Act of 1986 (REDUX) governs the retirement of military personnel who initially entered the armed forces after July 31, 1986. Under REDUX a retiree's initial annuity ranges from 40 percent to 75 percent of the individual's highest three years of basic pay. Retirees with 20 years of service will receive 40 percent, and the fraction will grow with each additional year of service and reach the maximum at 30 years of service. When the retiree is 62 years old, the annuity is raised in most cases to equal 2.5 percent of the average of the highest 36 months of basic pay for each year of service up to a maximum of 75 percent. Also under REDUX, retirees, including those receiving disability retirements, receive annual cost-of-living adjustments (COLAs) equal to the change in the Consumer Price Index (CPI) less 1 percentage point. When the retiree reaches age 62, the annuity is raised to reflect all of the CPI growth until that point, but thereafter annual COLAs continue to equal the CPI less 1 percentage point.

Current law provides two different formulas for other individuals who retire based on longevity but are not covered by REDUX. Military personnel who first became members of the armed forces before September 8, 1980, receive retired pay equal to a multiple of their highest amount of basic pay; the multiple is 2.5 percent for every year of service up to 75 percent. Retirees who first became members of the armed forces between September 8, 1980, and July 31, 1986, receive retired pay based on the average of the highest 36 months of basic pay and the multiplier of 2.5 percent for each year of service (the so-called high three plan). Longevity and disability annuities for both of these groups are fully adjusted for changes in the CPI.

Changes Under S. 1059. Under sections 641 and 642, members who, under current law, would retire under REDUX will face a choice upon reaching 15 years of service. They will choose to either receive a lump-sum bonus of \$30,000 and retire under the REDUX plan or forgo that payment and upon retirement receive annuities under the high three plan.

Costs. CBO estimates that S. 1059 will raise direct spending for annuities by about \$233 million over the 2000-2009 period. The increase in outlays prior to 2006 will be primarily from higher cost-of-living allowances for individuals who receive a disability annuity. Because the increase in benefits will apply only to members who entered the service after July 1986, annual costs will rise sharply starting in 2007 as the first full cohort becomes eligible to retire. Annual costs will continue to rise for years after 2009. In the long run, spending for military retirement—about \$32 billion in 1999—will be about 11 percent higher than under current law.

The military retirement system is financed in part by payments from appropriated funds to the military retirement trust fund based on an estimate of the system's accruing liabilities. Modifying REDUX will increase payments from the military personnel accounts to the military retirement fund (a DoD outlay in budget function 050) to finance new benefits based

on service after the act takes effect. The source of those accrual payments, as well as the lump-sum bonuses, will be discretionary appropriations for military pay and allowances.

Because the act offers increased retirement benefits based on service prior to the effective date, payments from the military personnel accounts will not cover the entire cost of the increased benefits. As a result, the unfunded liability of the military retirement trust fund will increase by approximately \$4.5 billion. Under current practices, the Treasury will pay the trust fund that amount over many years, but those intragovernmental transactions, which will be classified as mandatory spending, will have no net budgetary impact.

Extension of Survivor Benefits. Section 656 will indefinitely extend beyond September 30, 2001, a program to compensate surviving spouses of certain active-duty servicemembers and reservists who died before they were able to enroll in the Survivor Benefit Plan. This program, which began in December 1997, is currently providing a monthly annuity of \$170 to almost 2,000 beneficiaries. CBO estimates that 2,300 spouses will participate in the program in 2002 and that they will receive a total of \$6 million. After 2003, the mortality rate among the annuitants will exceed the projected rate of new enrollments. However, because benefits are retroactive to the inception of the program and annuities increase with the cost of living, the cost of the program will not vary greatly over the next several years. CBO estimates that this provision will result in direct spending of about \$55 million over the 2000-2009 period.

The section will also extend eligibility in the program to surviving spouses of reserve members who died before September 21, 1972, and had met all the requirements for retirement except reaching their 60th birthday. CBO estimates this extension will cost less than \$500,000 a year.

Paid-Up Survivor Benefits. Section 655 will eliminate premium payments for certain participants in the Retired Serviceman's Family Protection Plan. Effective in 2008, participants who are 70 years of age or older and who have paid premiums for 30 years will make no further payments. Under current law, retirees pay premiums until they die. CBO expects that, in 2008, nearly all surviving participants in this program will have paid premiums for 30 years and have exceeded 70 years of age. Based on data from DoD on projected program participation and current premium payments, CBO expects that forgone receipts will amount to \$2 million annually in 2008 and 2009.

Forgone Spectrum Receipts. Section 1062 will reduce the amount of electromagnetic spectrum to be auctioned by the Federal Communications Commission (FCC) in 2002. The Balanced Budget Act of 1997 directed the National Telecommunications and Information Administration (NTIA) to identify 20 megahertz (MHz) that could be reallocated from federal to commercial use and directed the FCC to auction and assign that spectrum to new

licensees by September 30, 2002. Section 1062 reduces the amount of spectrum to be reallocated and auctioned by 8 MHz, specifically requiring that the President reclaim two bands of frequencies that had been identified for reallocation by NTIA—three MHz located between 139 MHz and 142 MHz and the five MHz located between 1385 MHz and 1390 MHz. CBO estimates that reclaiming these two bands will reduce offsetting receipts from spectrum auctions by about \$50 million in 2002. We estimate that other provisions regarding spectrum policy will have no significant effect on direct spending over the next 10 years.

Retirement of Reserve Technicians. Section 522 of the act will institute mandatory retirement rules (under the civilian retirement programs) for civilian federal workers who perform administrative and maintenance tasks for the reserves. Under current law, these employees (known as military technicians) are generally, but not always, required to be members of the reserve units for which they work. Technicians who are also in the reserves are commonly referred to as "dual status" technicians; those who are civilian employees only are "non-dual status" technicians.

Current non-dual status technicians who are eligible for normal retirement benefits will have to retire within six months. Technicians who lose their dual status in the future and are eligible for benefits will have to retire within 30 days of losing their dual status. Non-dual status technicians who are not eligible to retire will, depending on the date they were hired, either be separated or allowed to remain in their current positions until they become eligible for retirement.

Based on information from DoD, CBO expects that this provision will affect about 1,500 non-dual status technicians, all in the Army Reserves, and will result in an additional 410 retirements over the 2000-2004 period. Most of these additional retirements will take place in fiscal year 2000. CBO estimates that these additional retirements will increase spending on federal retirement benefits by \$37 million over the 2000-2009 period.

DoD Separation Incentives. Under current law, DoD has authority through 2001 to offer buyouts to employees who voluntarily retire or resign. Section 1104 of the act will extend this authority through the end of 2003. Some of the employees who receive buyouts under this extended authority will be induced to retire earlier and receive federal retirement benefits sooner than they would otherwise. These additional benefits represent direct spending. In later years, annual federal retirement outlays will be lower than under current law because the employees who retire early will receive smaller annuities.

Based on information from DoD, CBO estimates that 6,300 employees in 2002 and 3,600 employees in 2003 will accept buyouts. CBO assumes that the buyouts will induce about 40 percent of these employees to retire a year or two earlier. CBO estimates that the

employees who are induced to retire early will receive annuities of about \$24,000, and that the resulting increase in federal retirement benefits will total \$128 million over the 2000-2004 period. By 2009, annual spending on federal retirement benefits will be \$9 million lower than under current law.

DoD will be required to make a deposit to the Civil Service Retirement and Disability Fund (CSRDF) equal to 15 percent of final pay for each employee who accepts a buyout. These additional deposits will be treated as offsetting receipts and will partly offset the additional spending on retirement benefits. CBO estimates that these deposits will total \$43 million in 2002 and \$26 million in 2003.

DOE Early Retirement Authority. As part of the creation of the new National Nuclear Security Administration (NNSA), section 3242 of the act gives DOE the authority to offer early retirement to employees affected by the department's reorganization. This authority will become effective on March 1, 2000, and will remain in effect through fiscal year 2003. The number of early retirements that can be granted under the provision is limited to 600.

Although the full extent of DOE's reorganization stemming from the creation of the NNSA is unknown, based on information from DOE, CBO estimates that 130 NNSA employees will take early retirement under this provision over the 2000-2003 period. These additional retirements will increase spending on federal retirement benefits by \$10 million over the 2000-2009 period.

DOE Separation Incentives. Under current law, DOE has authority through the end of calendar year 2000 to offer buyouts to employees who voluntarily retire or resign. Section 3161 of the act will extend this authority through the end of calendar year 2002. As with section 1104, these additional buyouts will induce some employees to retire and begin receiving federal retirement benefits sooner than they would have otherwise.

Based on information from DOE, CBO assumes that buyouts under this extended authority will be offered at the beginning of fiscal years 2002 and 2003, and that 150 employees each year will accept them. CBO assumes that these buyouts will induce about 40 percent of those employees to retire a year or two earlier. Those employees will receive average retirement annuities of about \$34,500. CBO estimates that the resulting increase in federal retirement benefits will be \$2 million in 2002, \$3 million in 2003, and \$1 million in 2004. In addition, DOE will make \$2 million in payments to the CSRDF in both 2002 and 2003 for the employees who accept buyouts. These additional payments will be treated as offsetting receipts, resulting in no net effect on direct spending in 2002 and a net increase in outlays of \$1 million annually in 2003 and 2004.

Ford Island Lease-Purchase. The act will provide the Navy with a variety of means to develop Ford Island, which is located in Pearl Harbor. Under section 2802, the Navy may sell or lease its excess Hawaiian property for cash or services. But because the use of cash proceeds will require appropriation action, the Navy will probably enter into barter arrangements and enhanced-use leases that will allow it to obtain construction and maintenance services that could have a cash value up to about \$500 million.

In addition, the act will allow the Navy to enter into long-term leases with the option to buy the leased facility at the end of the contract period. Such lease-purchase authority results in direct spending, with budget authority in 2000 equal to the net present value of the Navy's obligations over the life of applicable contracts. Outlays will be recorded either over the construction period or the lease period, depending on the nature of the project. CBO cannot precisely estimate those costs because the Navy does not know the extent to which the authority will be used. Given the scope of the Ford Island project, costs could total tens of millions of dollars or more.

S. 1059 could result in forgone receipts to the Treasury to the extent that the Navy would have otherwise sold its excess property under current law. If that property were declared excess and sold through normal disposal procedures, receipts could total tens of millions of dollars or more. But because the Navy currently has no incentive to formally declare that its valuable real estate is excess to its needs, CBO believes it is unlikely that the property would be sold under current law.

Land Conveyance. Section 2834 will convey an Army Reserve Center to the city of Kankakee, Illinois. The Army has declared that property excess to its needs. Thus, under current law, it would likely be transferred to the General Services Administration and sold. Based on information from the Army, CBO estimates that forgone receipts will total about \$1 million in 2001.

Other Provisions. The following provisions will have an insignificant budgetary impact:

- o Section 115 will extend a pilot program that allows the Army to sell certain articles and services to commercial entities.
- o Section 562 will waive statutory time limitations and authorize the President to award the Medal of Honor to Alfred Rascon for acts of valor that occurred on March 16, 1966. This section will affect direct spending because recipients of the Medal of Honor are eligible for a special pension of \$400 a month.
- o Section 601 will increase retirement benefits for certain senior officers who retire between April 30, 1999, and December 31, 1999.

- o Section 653 will allow members with over eight years active duty or 15 years reserve service to receive a disability retirement or separation if they are separated from the service due to a pre-existing condition. Costs will be insignificant in the short run and will amount to approximately \$10 million annually after 23 years, as certain reservists reach 60 years of age.
- o Section 654 will allow retirees electing the Survivor Benefit Plan (SBP) during the current open enrollment period to apply their back payment of premiums toward the 30-year limitation on payments. CBO expects this provision will affect few individuals.
- o Section 657 will provide survivor benefits to the former spouses of retirees who, while under court order to elect SBP for their former spouse, die within 21 days of the court order without having made the election. CBO estimates that section 657 will apply to few individuals.
- o Section 714 will allow the Secretary of Defense to waive the TRICARE deductibles for family members of certain reservists and National Guardsmen who are recalled to active duty. Although it is impossible to predict the extent, frequency, and duration of reserve call-ups, CBO expects the budgetary effects of this provision to be insignificant in most years.
- o Section 803 will allow DoD to sell holdings of coke and coal and to spend the proceeds of those sales.
- o Section 2814 will allow the Naval Academy to use proceeds from the lease of its dairy farm.

Asset Sales

Stockpile Sales. The act authorizes DoD to sell several materials contained in the National Defense Stockpile to achieve receipts totaling \$10 million in 2000, \$100 million through 2004, and \$300 million during the 10-year period ending September 30, 2009. CBO estimates that DoD will be able to sell the materials authorized for disposal and reach the targets called for in the act.

The act will also increase the targets contained in the National Defense Authorization Act for Fiscal Year 1997 (Public Law 104-201) and the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85) by \$108 million and \$83 million, respectively. CBO

estimates that DoD will be able to achieve the higher targets because recent sales have been more robust than previously anticipated.

Sale of Naval Vessels. The act will authorize the transfer of 13 naval vessels by grant or sale. Based on the Navy's estimate of the value of the ships and recent experience with actual sales, CBO estimates the transfers will increase offsetting receipts by \$90 million in 2000. Because one of the vessels authorized for sale is currently under lease for \$3 million per year through 2002, the net increase in receipts from the sales will be \$84 million over the 10-year period.

Revenues

As discussed above, section 522 will institute mandatory retirement rules for certain military technicians. CBO assumes that non-dual status technicians who are forced to retire under this section will be replaced by newly hired dual status technicians. Most retiring technicians will be covered by the Civil Service Retirement System (CSRS), while their replacements will be covered by the Federal Employees' Retirement System (FERS). Technicians in CSRS contribute 7.0 percent of their pay to the Civil Service Retirement and Disability Fund, while those in FERS contribute 0.8 percent of their pay to the CSRDF and 6.2 percent to Social Security. By accelerating the hiring of FERS-covered technicians, this provision will decrease employee contributions to the CSRDF (which are on-budget revenues) by \$8 million over the 2000-2009 period, and increase Social Security receipts (which are off-budget) by \$8 million over the same period.

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